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ART. III. — *Observations on the Financial Position and Credit of such of the States of the North American Union as have contracted Public Debts ; comprising an Account of the Manner in which the Sums raised by each State have been applied, and a Consideration of the Probable Effects of such Application upon the General Wealth and Prosperity of the Country.* By ALEXANDER TROTTER, Esq. London. 1839. 8vo. pp. 455.

THE title of this book fully describes its object. One of the most remarkable consequences of the very complicated system of government which distinguishes this country from all others is, the great difficulty experienced at every step in acquiring information respecting all its parts. There is so little tendency to centralization in the United States, that it is questionable whether, excluding the small number of official persons at Washington, obliged in the course of their duties to look equally round, many individuals can be found who possess that knowledge respecting the portions of their own country remote from them, which should belong to men claiming to be tolerably well informed. Great numbers of the better educated classes are more acquainted with the state of Europe than with that of America. The West knows

Mr. Dixon, by an entirely new process ; and we are informed by the inventors, that it was the result of a number of experiments made by them, for the purpose of ascertaining the reality of the security afforded to our moneyed institutions by Perkins's stereotype plates. The conclusion is, that they afford not the slightest protection against counterfeits, as it has been repeatedly demonstrated that a perfect fac-simile can be transferred from any bank-bill, in the short space of half an hour, and, when the transfer is once made, any number of copies can be taken.

"The specimens of printing now before us, transferred by the new process, are so perfect, that, as we compare them with the originals, we can perceive little or no difference, although the originals are perfectly dry, and were printed in the usual manner. We are aware that transfers are frequently made in common lithography, but it is only from recent prints, and with a peculiar ink. But in the mode invented by our townsmen, it is of no consequence how old the printing may be.

"According to the representations made to us, which appear to be borne out by facts, this appears a valuable acquisition to the arts. Printed despatches, received by mail or from foreign places, can be distributed by this process, without regard to size, form of type, or language, in less than an hour. Books, also, which have many plates, it is stated to us, can be reprinted at an expense much below the present cost.

"We are assured that the invention is to be given to the public, as soon as the banks can be made secure, by the adoption of a method of which Colonel Peabody and Mr. Dixon are the patentees, which will put their notes beyond the power of lithography to counterfeit."

very little of the East, and in that little prejudice has a greater sway than the desire for truth. On the other hand, the East is almost as indifferent about exactness respecting the West, considering it in such a perpetual state of change as to baffle every hope of arriving at fixed ideas. The local matters, that interest any one State, seldom make themselves felt far beyond its limits ; and nothing but a Presidential election has force enough to inspire an adequate idea, in the general mind, even of the relative political power of the different members of the Union.

If the truth of these remarks should be doubted in some points, we think it will be generally conceded when we limit them to the financial questions which arise in the States. It is but very lately that these, in their separate capacity, have come forward as dealers in money, and few persons who are not themselves engaged in the same business have yet formed adequate notions of the extent to which they have gone. Mr. Trotter will, in all probability, be able to furnish many with particulars that will surprise them. Although a foreigner, he has collected, with great industry, facts not generally understood by natives of this country. In consequence of the applications for loans, that are perpetually making by the States to the capitalists of Europe, and particularly of London, an obvious necessity arises for the information essential to estimate properly the ability of the respective applicants to fulfil the engagements they are disposed to make. Hitherto, it would certainly seem as if a suitable degree of attention had not been paid to the duty of collecting this, and as if money had been advanced at hap-hazard, with more reference to the tempting nature of the terms offered, than to the resources of the parties offering them. It is high time that this mode of proceeding should be changed ; for it will inevitably lead to disappointment upon one side, and irritation upon both. The more usurious a contract is, the more oppressive it will be felt by the borrower ; and, if ultimately there should be found an unwillingness to comply with its conditions, amounting in fact to inability, the greater will be the disposition to seek in the severity of those conditions an excuse for non-performance. This is the nature of man whether taken individually or in society ; and when we hear of some of the agreements which have been made in London, it is, we confess, with no small surprise, that we perceive how far the ordi-

narily shrewd and careful citizens of that great metropolis appear to have overlooked or forgotten it.

Nineteen States out of the twenty-six, and one Territory, have authorized the contracting of a debt, which in the aggregate may now be estimated as equal to two hundred millions of dollars. A very large part of this is actually due to foreigners, and consequently subjects the country to a heavy annual drain of money in the form of interest, which must, in most cases, be remitted to Europe at the hazard and expense of the borrowers. It is, therefore, highly incumbent upon every citizen of the United States, if he does not now know, directly to set about understanding, what he has got to represent the debt thus created, and how far his industry and his capital have been assisted or hazarded by the mode in which the money raised has been spent. The work of Mr. Trotter is very well calculated to aid him in his investigation; for, although not in itself pretending to be perfect, nor yet embracing many items which the passage of time has already added to the list to be learned, it nevertheless furnishes, in a small compass, a more complete notion of the most essential facts than any which it has been our fortune hitherto to meet with.

The first chapters are devoted to a general view of the financial history of the Union, involving a sketch of the most disputed political questions of the day. They embrace also some account of the resources of the soil, of the products of the different sections of the country, and of the advantages and disadvantages believed to attend them, the operation of slavery on one side, and the barrenness of the land on the other, and the general tendency of the credit system. All these are unquestionably important elements in the consideration of the financial position of the States. But it is obvious, that, unless they are touched upon in the slight and cursory way of the author, they would each of them furnish the materials for a book as large as his. We cannot venture to follow him in the estimates which he makes of them, nor to give our reasons where we disagree with him in opinion. After all, every mind will make a scale for itself, according to the impressions it has heretofore received, and this will not be liable to modification by the force of mere abstract reasoning. The author has acted very judiciously in submitting only the facts and his own impressions, without pretending to decide upon any thing.

The fifth chapter displays the immediate object of the

book. The author here begins with a notice of the important difference which exists between the creation of loans for the purpose of increasing the productiveness of a country, and that where mere consumption is intended. This distinction is always made in the relations between private individuals, and materially affects the degree of credit given to one person over another ; but it has not been customary to apply it in the same manner to nations. Perhaps this may be owing to the fact, that borrowing money by a State for investment is an idea peculiarly American, and another ramification of the system of credit, for the extension of which we are so remarkable. However this may be, the fact is too important to be lost sight of in an estimate of the resources of a borrowing party ; for it cannot be doubted, that a debtor will be more able to repay the money he has borrowed, if he has invested it in some shape that may return a part, even admitting that it may be but a small part, than if he had spent it without leaving himself any thing at all to show in its stead.

After all, however, the great test will be in the application, judicious or otherwise, of the means thus obtained ; and by this must our borrowing States be tried. It is important to know exactly what has been gained in exchange for the money ; and if we find that the object acquired is in reality more than an equivalent, then is the position of a State benefited by the loan she has made, and her credit is strengthened ; but, on the other hand, if we find that there is no great probability of a return proportionate to the outlay, or that some other undertaking is reasonably likely to impair or destroy the fair promise before full performance, then has the borrowing of money been a positive disadvantage, and the credit of the borrower is diminished.

Of the large amount that has been borrowed within a few years by the States, considerably more than half has been expended in works of internal improvement, such as canals, railways, turnpike roads, &c. ; the rest has been made the basis of banking institutions. The first mode of appropriation has been that most generally adopted in the free States of the Union ; the second has been confined in a great degree, though not entirely, to the slave-holding States. Both of them have been productive of very important immediate effects upon the industry of the community. Yet it remains to be seen, whether the disadvantages that may be experienced hereafter from the manner in which the works have been carried on,

will not require a great deduction from the benefits derived. There was, no doubt, much weight in the objections made to the adoption of the policy of internal improvements by the national government, when it was agitated. The principal ones were, that the system could not be carried on with a proper regard to economy, and that it would be the means of creating an army of dependents upon the administration, whose votes could be influenced to settle the popular elections. There were other arguments drawn from the jealousy of encroachment upon State rights, which showed more narrowness of mind, than solidity of judgment or comprehensiveness of policy ; we therefore do not state them. Of the two objections enumerated, the first appears to us to have been far the stronger. The tendency of the members of our national legislature to regard measures rather in the light of instruments with which to advance their popularity within their districts at home, than as modes of promoting the general prosperity, would inevitably have given rise to much contention, and to the proposal of many schemes of no great national benefit, the adoption of which it would nevertheless have been difficult successfully to resist. And the execution of the system might have made an opening to much favoritism and jobbing, which would have put the country to great expense with little benefit.

Admitting these objections to a national system of internal improvements to have very great weight, it is nevertheless much to be doubted whether those, which lie against the one adopted as a substitute for it, do not more than counterbalance them. In the first place, the tendency to improvements of a local and wholly useless character, instead of being counteracted by the separate action of the States, has been infinitely increased. The competition, from being between great sections of country, the West, the East, the South, and the North, as it was in Congress, has been between the several States, and in some cases has degenerated into a contest between the different counties in the same State. In addition to this, there has been no system adopted to make the works executed conduce to the common benefit. The utter want of general plan has led to a hurtful emulation, by which each State strives to secure to itself whatever it may gain from its neighbour, and this at a constant expense of new undertakings to divert trade from one point and to another, which, if carried on, must in the end absorb all the profits

attending even the most judiciously executed ones. There can be little hope of permanent profit in any one quarter, where success becomes the signal for new efforts in others to diminish if not to destroy it. Moreover, the extraordinary expense at which all this is carried on by the States would have covered a great many fat jobs given to favorites of the national government, even if we are to suppose that such things do not also sometimes happen with the States themselves. Most of the money which has been raised to pay for these State undertakings, has been borrowed upon terms much less advantageous than it would have been, had the United States been the applicant. The wealthy capitalists of Europe who would have been glad to advance to the national government the whole sum, which has been actually procured, at a very low rate of profit, on account of the general confidence in the security of the loan, have been induced to do the same thing to the separate States only by extraordinary appeals to their avarice, and by the offer to them of terms, which, in many cases, if they had been made in private among individuals at home, would have been reckoned to be highly usurious.

On the whole, therefore, if we strike the balance between centralism and consolidation on the one side, and State pride on the other, we shall perhaps discover that the latter, however good in itself, is apt, when carried to an extreme, to prove, like all other pride, equally expensive and inconvenient. And we may also find, that the very moment, when it appears to have most firmly established its preponderance in the national councils, is the one from which the heaviest counterpoise begins to make itself felt. The Americans are proverbial for never being discouraged. If they cannot carry a point directly, they will manage to do it by some roundabout way. They were determined upon improving the communications between the seaboard and the interior. A very large number of them thought it best that this work should be done under the superintendence of a common head, and they proposed a method of action accordingly. But the extent of it excited the apprehensions of a still greater number, and these refused to adopt it. According to them, the business could be intrusted with safety only to the care of the separate States, upon whom it was in the end devolved. The consequence has been the outlay of quite as much money, if not a great deal more, than would have been expended on the other plan, the creation of a great many more works of doubtful utility

than could have been carried through under the jealous eyes of the national legislature, and the establishment of an enormous debt, which the States, as such, will find it difficult, — as to a few of them, it is not hazarding too much to say, impossible, — ever to pay. And, after all, it is not improbable that Hercules will be obliged ultimately to put his shoulder to the wheel, or they will sink beyond the hope of extrication.

We have given this short chapter for the benefit of the school of strict construction, although at the expense of a little digression. We mean by it to show of how little avail is the resistance of any human power, when directed to check the developement of a country like this. The course of events will, far more unerringly than man can do, distinguish the statesman from the small politicians who may have made a figure in their day; and posterity will take care to award to each, provided it shall stop to recollect the names of the latter, the share of credit which his good acts alone shall have earned for him.

The policy of borrowing money for the sake of establishing banks, appears to have originated in the State of Louisiana, where there is a sufficient inducement existing for so singular an undertaking in the great profits that can be drawn from the use of it. This establishes a rate of interest much higher than can be safely borne in older countries. The mode in which this system has been carried into effect is, however, but imperfectly understood among us. We will, therefore, take from the work of Mr. Trotter, now before us, the clear and simple account he gives of it.

“The cases in which the State is co-proprietor in a bank are very numerous; and while this system, as we have seen, affords a greater degree of security to the holder of the State’s engagements, the benefits which the State derives from it are very considerable.

“The Bank of Louisiana was one of the earliest institutions of this nature, and its charter seems to have served as a model for similar establishments in other States; for this reason, and on account of its having now been sufficiently long in operation to have presented several interesting results, some details may be entered into, as illustrative of the general proceedings of banks founded on this principle. This bank was established by an act, which was finally approved of by the legislature on the 10th of April, 1824, and soon afterwards commenced business; the charter extends to 1870. The capital consisted of \$4,000,000, of which one half was subscribed by the State,

and paid for by an issue of bonds bearing interest at 5 per cent. ; the remaining half was subscribed by individuals, and was to be paid for in specie, although the enforcement of this provision was afterwards relaxed. The credit of the State being then untried, the bonds were only received at the rate of $83\frac{1}{2}$ per cent. of their nominal amount, so that bonds for \$2,400,000 were given as the State's subscription, which were to be redeemed in equal portions at the end of ten, fifteen, twenty, and twenty-five years from the date of the act ; the bonds were not to be sold by the bank otherwise than for specie, and not below the rate at which they received them ; the bank was allowed to appoint the place where the half-yearly interest was to be paid ; but any additional charge, loss on exchange, or other expenses which might be consequent upon the payment at any other place than New Orleans, were to be defrayed by the bank.*

“ The faith of the State was pledged for the payment of the principal and interest of the bonds, but, so long as the share of the State in the profits of the bank was more than sufficient to pay the interest, the payment was to be made by the bank, and the surplus was to be retained under the joint administration of the treasurer of the State and the officers of the bank, to constitute a sinking fund for the redemption of the principal ; and it was enacted that, until the full liquidation of the first series of \$600,000, no part of the surplus profits on the State's share should be otherwise appropriated than to the payment of the principal of these bonds ; but, it was stipulated, that, after the redemption of this first series, one fourth part of the half-yearly dividends upon the stock held by the State might be applied towards the current expense of the government ; no greater portion of the dividends, however, was to be so applied until a further sum of \$600,000 had been redeemed, when one half of the dividend might be applied to the use of the State ; after which no greater amount was to be applied by the State to its own use until the whole of the bonds were paid off.

“ Many judicious regulations were laid down by the charter for the management of the bank, with a view both to the accommodation of the public and the security of the institution. One half of the capital was to be appropriated solely for the purpose of being lent upon notes or bonds secured by mortgages or immovable property ; but no mortgages were allowed to be taken upon land not in a state of cultivation, and not

* The State bonds were sold at a profit of \$322,000 ; but, by an engagement to pay the interest in London at the rate of 4s. 6d. per dollar, the bank loses the premium on the current rate of exchange between England and America, which will absorb nearly one half of this profit before the bonds are all repaid.

more than one half of the net value of the real property to be mortgaged, after deducting all previous mortgages or incumbrances, was, in any case, to be advanced. The rate of interest to be charged by the bank was limited to nine per cent. per annum upon loans and on discount of bills, and to six per cent. when the period did not exceed four months.

“The success of this bank has now been fairly tried ; a half-yearly dividend of four per cent. has been regularly paid to the shareholder ; and, at the expiration of the first ten years, the sinking fund had accumulated to a sum sufficient to effect the liquidation of the first fourth part of the loan ; the second series, which becomes due in the course of this year, has in like manner been provided for, and notice has been given that it will be paid on an appointed day ; for the last five years, therefore, the State has had the power of applying one fourth part of the dividends falling to its share to the general purposes of the government ; and henceforward, till the remaining portion of the bonds are redeemed, it will have the disposal of one half, or four per cent. per annum, on its share of the capital. If the same prosperous course is continued, the State, at the expiration of ten years more, will have become possessed of one half of the capital of the bank, and will be in the enjoyment of the full dividend upon that share, without a single dollar having been advanced by the treasury.” — pp. 92–95.

The same kind of process that is described in this extract has been adopted with more or less of modification in many of the States in the south and west of the Union. Sometimes they have only guarantied the payment of the money borrowed to form the capital of the banks, and, at others, they have become principals by assuming part or the whole of the ownership of those institutions. Of the propriety or the expediency of adopting any plan of the sort, there will be different opinions. We are not prepared to deny that it may sometimes turn out for the advantage of all the parties concerned. Our own opinion is, that successful banking does not depend upon skill in legislation, but upon the particular system of management which shall be adopted. A bank may prosper under a charter very loosely put together, and it may fail under one adapted with the utmost accuracy to the axioms of political economy. The success of the former will not, however, sustain an argument in favor of unsound principles, any more than the failure of the latter will weaken the force of sound ones. In the one case as in the other, the persons who shall have conducted the banks will have acted with little reference to the mere directions of the charters which create

them ; and the returns will generally prove to be in exact proportion to the prudence, discretion, and honesty, which shall have been exercised.

Aside from this, however, there are some very grave objections against the connexion thus formed between the States and banks, which Mr. Trotter has barely glanced at. The temptation to force large dividends without much reference to the profits made, in order to meet the interest that falls due on the bonds, is doubtless very great. But it is nothing in comparison with the errors that are likely to grow out of a wrong system of making loans. A bank is created, as in Alabama for example, upon the distinct understanding that the inhabitants of each county in the State are to be entitled to borrow on mortgage a certain amount of money bearing some proportion to its extent and population. The practical effect of this is to stimulate planters to extend their plantations upon this borrowed money beyond a safe line, and consequently to excite a spirit of competition, which for a time runs up the prices of land and negroes above the level of natural demand and supply. Presently things take an unfortunate turn ; the price of cotton falls, and no longer returns enough to pay, besides the cost of production, the interest on the mortgages ; and the bank must foreclose or go behindhand with the interest on its own bonds. Then it is, that the evil of the State's connexion with such an institution develops itself. The elections to the legislature soon come on, and in every county a party is at once organized, which is in favor of adopting any measures, however injurious they may ultimately prove, that will relieve the planters from immediate pressure. This is the fruitful parent of suspensions of specie payment, restrictions upon the bank's power to collect debts, general bankruptcy and stop laws ; — in short, of the whole train of evils that attend a connexion between avarice and unbridled ambition. We do not know whether any State in the Union has yet run through the whole circle of this experience ; but it is apparent from the work of our author, even though it does not include the history of the past year, that one or two of them are in full career to arrive at it.

Perhaps the most remarkable feature distinguishing the inhabitants of the United States from all other nations is, their disposition not to leave any plan untried, provided only that it bears a plausible shape. This is not yet fully understood by foreigners, and the mistakes they commit for want of the

knowledge often lead to injurious surmises respecting the intentions of our countrymen, that are not deserved. Enterprise and adventure are qualities much more generally developed among us, than prudence and caution. The consequence is, that an infinite number of promises made in perfectly good faith, but the performance of which depends upon a somewhat too sanguine calculation of probabilities, are destined to be broken. The moral effect of this must be admitted to be bad. It breeds an indifference to the precise terms of contracts, deeply to be regretted. Yet, although this has been for a long time regarded as a national characteristic, the fact that the credit of American citizens has never been more than temporarily impaired, goes to show, that, with much of disregard, there must be more of substantial performance, of engagements. The success which frequently attends well directed energy will more than compensate for a great deal of rashness. When we look round upon the South American States, as well as some of those in the old world, we can form a better idea of the extent to which indolence and apathy can extinguish credit. And we may discover, that, however great doubt may surround the fulfilment of the obligations of some States of this Union, there would be not a few persons glad to exchange for the most questionable of them, the best of those of other and more indolent countries.

Our author considers all these things only in a business point of view. The object of his work is to estimate the solvency of the debtor States, and he does so with fairness and candor as well as judgment. To this end he commences with Massachusetts, and goes through with them all in order, specifying in each case the nature of the debt contracted, the amount and object for which the money was borrowed, and the special provisions made for the ultimate payment, or the general resources, which, in the absence of these, may be relied upon. This is an excellent method, calculated to furnish to all who are interested in the subject, in very brief compass, the information they may want. His conclusions are highly favorable to the credit of Massachusetts and New York ; but, as the financial condition of those States is generally better understood than that of the others, we abstain from discussing it. As to Pennsylvania, he sums up the amount of her liabilities as follows ;

“The public debt, and the engagements of this State, according to the last annual report on the finances of the Com-

monwealth, consisted, at the close of the fiscal year, on the 31st of October, 1838, of

Loans not pertaining to canals and railroads, \$ 1,680,000·00

Loan for the Eastern Penitentiary, per act 21st

March, 1834, 120,000·00

Loan for the Union Canal Company, per act 1st

March, 1833, 200,000·00

Temporary loan, per act 16th June, 1836, 200,000·00

Ditto, per act 14th April, 1838, 800,000·00

Appropriations to miscellaneous objects ; viz.

For Turnpike and State roads, . . \$ 69,302·72

Bridges, 82,512·50

Colleges, Academies, &c. 525,000·00

Common Schools, 616,511·61

Penitentiaries, 21,314·98

Miscellaneous, viz.

Geological Survey, &c. 231,088·05

1,545,729·86

Appropriations for internal improvements, 532,057·01

Debts pertaining to public improvements by
canals and railroads, 22,229,003·32

Debt due to the United States on account of
surplus revenue, 2,867,514·78

Total, \$ 30,174,304·97

“The faith of the State is also pledged for \$ 300,000·00 to the Pottsville and Danville Railroad Company, and for the payment of the interest on \$ 200,000·00 of the stock of the Bald Eagle and Spring Creek Navigation Company.

“The temporary loans contracted in June, 1836, and in April, 1838, amounting to one million of dollars, and a portion of the canal debt, making in all \$ 1,694,000·00, have however either become payable since the date of the report, or will be due in the course of the present fiscal year. The repayment of these sums will lessen to that extent the liabilities of the State ; but on the other hand, two loans amounting to \$ 2,480,000·00 have since been contracted, (under an act of the 26th of January, 1839,) and another of \$ 1,150,000 has been authorized by the legislature, (by act 27th June, 1839,) which will add so much to the amount. Deducting and adding these sums respectively, the debt will be increased on balance, to \$ 32,110,304·97.

“As, however, the excess of the sums thus raised, over the amount of the loans falling due will, together with the ordinary revenue of the State, provide for the portion of the appropriations likely to be immediately called for, and as the revenue of the State will, it is supposed, be sufficient to meet the remaining

appropriations as the several sums may be required, the whole of the liabilities under the head of appropriations ought, in considering the future prospects of the State, to be deducted from this amount.

“The portion of the surplus revenue received by the State ought not either, under the prevailing notions entertained upon the subject by the other States of the Union, to be considered in the light of a debt ; if this amount be likewise deducted, the sum forming the permanent debt of the State will be \$27,165,003.32.”

We believe this amount has been considerably increased within the present year, as well to finish some works partially executed, as to pay the interest upon the old debt. At the same time, this ruinous expedient of compounding interest has been stopped for the future by the passage of a law for levying a direct tax. The author proceeds to explain the nature of the improvements which have absorbed so vast a sum. Of the probability whether they will ever yield sufficient to pay the interest on the debt, he does not undertake to express an opinion ; but, inasmuch as it is provided that the deficiency shall be taken from the treasury, he considers the point of no consequence to the creditors. The debt seems therefore to him to be perfectly secure, as, to use his own words, “the great wealth of the State appears to offer a sufficient guaranty that its public credit may be maintained at an easy cost to the inhabitants.”

There can be no doubt that this is true. But, in a country like ours, where so much depends upon the popular opinion, the question with a creditor should never be what the ability to pay is, so exclusively as to lose sight of the inconvenience and burdensome nature of a tax levied to pay it. A disposition to comply with engagements to a reasonable extent may be relied upon ; but, in moments of distress, when the resources of the people are shortened, it is not to be expected of human nature that they will not complain, and there will then always arise men of a demagogue spirit, who will, for the sake of advancing themselves, give a distinct voice to the secret wishes of all. We do not desire to be understood as saying that this will happen under any circumstances like the present, or in a very short time ; but we throw out the suggestion as worthy to be considered by all those persons at home or abroad, by whom the present work may be retained as a guide. Pennsylvania has carried her system of inter-

nal improvement a little further than would seem altogether prudent, considering the temper of her population ; but, on the other hand, she has great resources within herself, the developement of which will, whenever the debt ceases to be enlarged, very soon provide for its extinguishment.

We very much fear that the engagements into which the State of Maryland has entered will prove much more burdensome. The amount of the debt authorized by her is stated by our author to be equal to the sum of \$16,160,667·00, which, estimating the free white population of that State at about 375,000, is equal to \$43 per head. As a set-off, she holds a property in various canals and railroads, some of which have already proved profitable, and are now doubtless worth more than they cost ; but of others it may be questioned whether they will soon, if ever, cease to be a burden. If she should be driven to resort to direct taxes to meet the interest accruing upon her debt, they will fall upon a population, in some portions of the State already from other causes on the decline, and upon lands which the cultivation of tobacco has gone very far to exhaust. Emigration to the new and fertile regions in the West is so easy an alternative, that the presence of a tax-gatherer would doubtless decide many to the complete abandonment of their lands. This expedient must obviously be adopted with a great deal of caution. The individuals to whom the government of the State is now intrusted have a great responsibility, for upon them will depend, in a great degree, her extrication in safety from the embarrassments in which she is involved. We would by no means desire to intimate any thing, which should have the slightest effect to impair the credit which this State has enjoyed ; but it is impossible for calm observers not to be startled by the magnitude of the sums for which our author shows she has made herself liable, and the unfavorable condition of the annual account of her treasury. Neither does it need any spirit of prophecy to show to what end, unless there is an energetic change of policy, these two things must inevitably lead.

The debt authorized by the State of Louisiana is set down by Mr. Trotter at \$23,139,000·00, which is far greater, in proportion to the probable number of free white inhabitants, than that of Maryland. Nearly the whole of the amount thus raised has been made the basis of banking operations in New Orleans. It is consequently very clear, that the prosperity

of that State will very much depend upon the prudence and skill exercised by the banks. A large proportion of the lands in the State are mortgaged to secure the ultimate payment of the sums borrowed of these institutions by the planters. Hence any misfortune, which should make industry cease to be profitable in Louisiana, would have the effect of making most of the territory revert into the hands of the State. How this may happen, we can best learn from the pages of our author.

“ Besides the instances in which the State is either the sole owner or the co-proprietor of the institutions which have arisen out of the application of the public funds to banking purposes, there are other cases in which the States assist by their credit, without deriving any direct advantage beyond reserving a power, under the act which incorporates the bank, of taxing the dividends, or requiring a payment for the privileges granted in the charter, although sometimes the State stipulates for an eventual share of the profits in consideration of its guaranty. The mode of putting the banks thus constituted into operation is not necessarily in all cases the same ; but, in general, the property of the individuals who embark in the undertaking is mortgaged in the first instance to the bank, which pledges the mortgages so obtained to the State ; and the State, on the actual deposit of the title-deeds, issues its bonds to the bank for a stipulated proportion of the amount, by the sale of which the capital is either wholly or in part raised. The State stipulates, in almost all cases, for the right of examining into the condition and management of the bank ; and, as the value of the property mortgaged is ascertained by the appraisement upon oath of commissioners appointed by the legislature, whose appraisement is often again subjected to revision, the system seems to offer a considerable security to the holder of the State's bonds, and one which is constantly increasing ; for, in a country progressively improving, the property thus pledged must every year acquire a greater value. In some instances, the State further requires, that the whole profits of the establishment should be set aside until the bonds issued by the State are redeemed.”

The banks created in this manner are called *Property Banks*, and are peculiar to the Southern States of the Union. We shall not pretend to pass any judgment upon them. After all, as we observed in the early part of our article, every thing depends upon the management. Yet, if we consult the abstract principles of political economy, fortified by the experience of the past, we shall hardly find land to be a solid

basis for bank operations, or the province of the banker to be to deal in money no part of which he owns. We in America have to say, in answer to all such objections, what Molière's "Médecin malgré lui" said to an inconvenient contradiction of his anatomical theory, "Cela était autrefois ainsi ; mais nous avons changé tout cela, et nous faisons maintenant la médecine d'une méthode toute nouvelle." We doubt whether a patient would ever survive medical treatment based upon the position that his heart was on the right side ; but the case is not parallel with that of a young State, which may strike out a novel path for itself and be prosperous notwithstanding.

We will now pass to the States in the West, which have borrowed a little of the policy of their neighbours in both of the other sections of the Union. They have raised money with which to create banks, and also money for internal improvements. The State of Illinois has authorized a stock of \$ 3,000,000 for the first of these purposes, and \$ 8,600,000 for the second. But our author has found it difficult to collect exact information respecting the manner in which either portion of this large sum has been employed. Some particulars have been supplied in the last number of this Journal,* which furnish a clear idea of the evils attending the system of internal improvements when carried on by the States. Illinois has commenced many things and executed nothing. She has borrowed just enough, to make it an absolute necessity that the debt should be greatly enlarged in order that she may realize any advantage at all from the money already obtained. She has rushed into banking with extravagant expectations of the profits to be realized from it, the usual forerunner of errors in policy. We perceive that the suspended debt of her banks is already equal to \$ 637,509.77. And she has bribed the dissatisfied counties to consent to a series of railroads and canals, which must infallibly entail upon them a burden of taxation far heavier in the end, than the sum which they received as a consideration. It is, however, much too early to predict what the end of all this will be. There is now little prospect of any revival of the credit which was so liberally extended to the States in Europe a short time since. Every dollar of money to be raised hereafter in this way, with very few exceptions, will be realized, if at all, at an enormous sacrifice. The consequence must be, that the works will lag on

* See pp. 133 *et seq.* of this Volume.

heavily, and the interest running on the existing debt will require means, the providing of which will furnish a fine opportunity for the development of financial talent in America.

Even the young States of Arkansas and Michigan, and the still younger Territory of Florida, appear to have rushed headlong into this debt-creating system. The first of these has authorized the issue of six per cent. bonds, to the extent of \$3,100,000 for the purpose of establishing two banks, the Bank of the State of Arkansas with a capital of \$1,000,000, and the Real Estate Bank for which \$2,100,000 are to be raised. The credit of the State does not appear to have been very strong; for few of its bonds were taken up, until the United States government thought proper to invest \$800,000, including nearly the whole of the Smithsonian fund, in the purchase of them. We allude to this more particularly on account of the following note of Mr. Trotter, at the foot of page 337.

“The United States government became the purchaser of both the sums of stock issued on account of this bank, \$100,000 having been purchased on account of the commissioners of Indian affairs, and \$200,000 on account of the Chickasaw Orphan fund. A further purchase of \$500,000 Arkansas stock has been made by the federal government since the account in the Appendix was rendered, but in which loan does not appear. This was the investment of a legacy to the United States, left by Mr. James Smithson of London, to found a literary institution at Washington. These instances afford a proof of the estimation in which the security of State stock is held in America.”

Now we must venture to deny the truth of the assertion made in the last sentence. It is no proof of the estimation in which stock is held in America, that bonds which cannot be sold elsewhere at par should be taken by the Secretary of the Treasury. It only proves the opinion of the Secretary himself. We believe there are few persons at all well informed upon financial matters in the United States, who did not learn with surprise the manner in which the Smithsonian fund had been invested, and a still smaller number, who would not have loudly protested against it, if it was not generally understood that the nation regarded that fund in the light of a sacred trust, which no financial error should be permitted to diminish, or State embarrassments impair. Neither in saying this do we mean to injure the credit of Arkansas. She

should have been made to take her chance in the market with all her sisters, without being favored with the deposit of a sum, which ought to have been secured by all the capital and industry of the oldest and most wealthy of them. We think it important that Mr. Trotter should not mislead his European readers, or himself, by the inference which he has drawn in this instance. For his experience should by this time have taught him, that the acts of the financial head of the national government in the United States are not in all cases the safest guide to the opinions of the most intelligent of the moneyed circles of the country.

The last chapter of Mr. Trotter's book is devoted to a general review of the grounds for State credit, which is drawn up with much ability and candor. As an evidence of what foreigners think of our political condition, perhaps the following passage may not be without its use.

"Though, in estimating the future by the past, there is great reason, therefore, to believe, that a determination to adhere strictly to their engagements is still likely to characterize the people of the several States, yet the effect of the continued and rapid strides which democratic principles are making in the United States may have too important consequences to be altogether overlooked in the present inquiry.

"Until late years, the middling classes, which in all free countries constitute the most important section of the community, enjoyed in the United States a practical importance in no degree inferior to that of the corresponding classes in this country. Possessed of wealth, of talent, and of station, they were able to exert the influence which these ought ever to command in the selection of their representatives in the national councils ; but the subjugation of this important and respectable class to the numerical force of the majority, in the wealthiest States of the Union, at the period of the elections in 1834, evinces the power which the dangerous right of universal suffrage is calculated to confer on those who are little fit to judge of the true interests of the State, and most open to the influence of uncontrolled feelings.

"The growth of popular opinion, in the worst sense of the word, in the United States, and the influence it has had in overruling the wiser and better principles advocated by the more enlightened portion of the citizens, have been lamentably shown in the little power which the executive has been proved to possess on all points where it has been opposed by popular clamor, which, whether expressed throughout the Union gener-

ally, or in a detached portion of it, has in the end always proved victorious.

“ The continuance of slavery, and still more the unnecessary recognition of it in Missouri, on that State being admitted into the Union ; the want of power in the local governments to protect the abolitionists at New York, or the Roman Catholic establishment at Boston ; and the inability of the general government to confirm the decisions of the Supreme Court in cases of the violation of treaties with the Indians ; the yielding to the Carolina tariff question, and the abolition of a national bank, though the clamor in the first of these instances had common sense in its favor, and in the other was sanctioned by the head of the government, — are all proofs of the supreme authority of the popular voice, when the feelings of the people are excited.

“ The effect which this prevalence of democratic principles may have in the case before us is very evident ; for, should the States be obliged hereafter to have recourse to taxation to defray the interest on their loans, it will not, probably, be till the different undertakings for which the loans were raised will have been rendered unpopular by want of success ; and, although it does not follow that the people, under these circumstances, will refuse to submit to the necessary sacrifice, their adhering to their engagements cannot be so confidently depended upon, as it might be if the legislative bodies were returned by classes more directly interested in the maintenance of the financial integrity of the States.

“ In deprecating, however, the dangerous tendency of democratic principles, it must be borne in mind that the direction of the bias which this power will give to the course of events, will depend on the character of the people who exercise it ; and as, in the supposed instance, the question is a simple one, of whether the States will act honestly or fraudulently, much will depend on the prevalence of religious principles among them ; for no views of expediency, however far-sighted, or even principles of national honor, can, under the supposed circumstances, be relied upon. To what extent, therefore, religious feelings prevail in the United States, and are likely to form a principle of action, must be a question of deep importance if viewed only in connexion with the subject under discussion ; for, in deciding whether, in times of difficulty, the States will keep good faith with their creditors or not, the existence of such an influence, or of an opposite one, must infallibly be found to throw its weight into one side of the balance or the other.

“ Being without the means of forming an opinion on this

subject, and wishing neither lightly to admit the existence of this feeling among the inhabitants of the United States, nor lightly to deny it, I shall content myself with pointing out the importance of it." — pp. 353–356.

We think this a fair, though not an exact, statement of the difficulties that attend State credit in America. Mr. Trotter does not recollect, that the great majority of voters throughout the United States are small landholders, too poor to bear much taxation. So very cheap is the fee of the soil, that a very small burden upon it in one place will make an owner sell out for what he can get, and remove to another, where he will not feel it. Now it may be the case, that the floating and movable voters, without property of any kind, will in particular places get the upper hand, and, with or without the consent of the land-owners, impose taxes, the weight of which they never will feel, or from which, if they do, they can escape at once by removal. Whenever these taxes become burdensome, it is the land-owners who will be the discontented, for they are the only fixed class of the population. And they will either refuse to continue them, or they will begin to remove. The latter branch of the alternative leads to depopulation, which is as fatal to the maintenance of a debt as the former. Hence it will be seen, that too great caution cannot be exercised, as well in the manner and degree in which direct taxes are resorted to, as in the extent to which they are relied upon as a resource by persons disposed to become creditors. It is not the disposition in which the debt is contracted, that is to be censured ; for we have no doubt that every proposition which has been made on the part of the debtor States has been in perfectly good faith, and there is on their part a sincere determination to abide by the terms of the engagements they have entered into, however onerous they shall prove. Neither is it so clear that a failure in performance, if any such happens, is to be apprehended from the precise cause mentioned by our author, the preponderance of the masses, who have no property, in the legislative bodies ; for these will never feel the weight of a tax. The dissatisfaction, if it arises at all, will spring up among the small freeholders, who may get rid of their burdens by removal to the West at little sacrifice, — thus devolving the whole upon the few persons of large property, upon whom the weight would prove intolerably great.

But it is altogether too early, at this time, to undertake to foresee evils of the kind described. The foreign creditors, who may feel uneasy at the present appearances, have in their favor the extraordinary resources of the country, the certainty that the people are well disposed to maintain their engagements, and the probability that a majority of the States would ultimately prefer that the national government should be made to assume their debts, to the adoption of any act of declared bankruptcy. At the same time, a result of this kind is so uncertain, and must be brought about against so great a degree of resistance, that it should never be made the basis of any extension of obligations.

The general observations made by our author upon the nature of our government present a wide field for discussion, which we regret that our limits must prevent us at this time from entering upon. There can be little doubt in the minds of reflecting persons, that a change has already taken place in the action of the federal constitution, which does not appear to have been foreseen by any of its framers. The people manifest an increasing distaste for the complicated theory of a division of powers, and more and more incline to the purely democratic feature of a single executive head precisely representing their will. We hope soon to find an opportunity for the developement of our views upon this topic, without however any design to take part in the political differences of the day. We do not perceive that this change is likely to have much effect upon the financial credit of the country, which will depend more upon the reputation acquired by those to whom its affairs may be intrusted, than upon any abstract notion. There can be no doubt, that in America there is a great fund of intelligence, judgment, and practical skill in matters of finance, always at hand in the commercial cities, which may be drawn upon with great advantage whenever the embarrassments of the public shall become such as absolutely to need its assistance.
